DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SUPPLEMENTAL RECORD REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
D.T.E. 01-81

Date: February 14, 2003

Witness Responsible: Francisco C. DaFonte

DTE-RR Sup. 1-2:

Please refer to Exh. DOER 4-29. Bay State stated that "[t]he position limits serve two purposes. First, the position limits prevent the possibility that Bay State would have a financial position without an associated physical market, which would entail speculation and violate NiSource policies. Second, the position limits establish a volumetric bound for risk exposure."

(A) Please explain what the Company means by "financial position" and "an associated physical market." Quantitatively, indicate what the "associated physical market" is.

(B) Please quantify the "volumetric bound for risk exposure" referred to above. Does the "volumetric bound" refer to *physical* or *financial* transactions?

Response:

(A) The term "financial position" refers to the Company's purchase of a financial instrument through the NYMEX, typically in the form of a futures contract, options contract or other derivative. As stated in Mr. DaFonte's prefiled testimony (p.13, lines 3-12), in order to avoid speculating in the financial market, any financial position such as a NYMEX futures contract must be supported by "an associated physical market" necessary to take delivery of the underlying natural gas commodity. As an example, if the Company's firm sales requirement in a given month is 3 Bcf and the Company purchases NYMEX futures contracts for the same month totaling 4 Bcf, the "financial position" exceeds the physical market demand by 1 Bcf. The excess financial position of 1 Bcf, which does not have an "associated physical market", would constitute speculation on the part of the Company and would directly violate the NiSource Risk Policy.

(B) The “volumetric bound” refers to the volumes underlying financial transactions. Specifically, the volumetric bound limits the total quantities of gas that can be hedged using NYMEX contracts or using fixed-price contracts that have the same financial risk exposure as a NYMEX financial contract.

Under the Bay State GCIM, the “volumetric bound for risk exposure” equals the 1,000 NYMEX equivalent contract limit. Since each NYMEX contract is equivalent to 10,000 Dth, the “volumetric bound” is equivalent to 10 Bcf, or 25 percent of Bay State’s normal annual firm sales requirements.